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IN THE

Supreme Court of the United States

OCTOBER TERM, 1951

No. 150

THE EASTERN VENETIAN BLIND COMPANY,

Petitioner,

vs.

ACME STEEL COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT AND BRIEF IN SUPPORT THEREOF

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THE EASTERN VENETIAN BLIND COMPANY,

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vs.

ACME STEEL COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

Petitioner, The Eastern Venetian Blind Company, prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Fourth Circuit, dated April 5, 1951, in so far as the same holds that respondent, by minor verbal changes in its patent licenses, had purged a misuse of its patents, which it had engaged in for years to gain a monopoly and restrain competition in unpatented materials, and in so far as the same holds Wilson patent No. 2,338,678 valid.

Summary and Short Statement of Matters Involved

On December 8, 1948, respondent filed this action in the District Court for the District of Maryland, charging petitioner with infringement of four patents. One of these (Wilson No. 2,294,434) claims the steps of a two stage method and the elements of a two stage apparatus

for making metal venetian blind slats. Also, one method claim is addressed to a specific first stage operation, although the product of that first stage, called "slat stock," is not patented. One claim covers a particular second stage apparatus. Hunter No. 2,337,047 relates to an alternative first stage method and apparatus. Wilson No. 2,338,678 relates to methods and apparatus for correcting non-uniformity of curvature of the slats of No. 2,294,434. Morse No. 2,315,640, which was held invalid below, covered the finished slats. Petitioner defended on the grounds, among others, that the patents were invalid and that the patents were unenforceable because of respondent's misuse of them to restrain competition in unpatented slat stock.

The District Court held that the four patents were valid and infringed and that the misuse defense, based on respondent's approximately 400 outstanding licenses, was not sustainable, but, nevertheless, required respondent to make certain verbal changes therein before granting injunctive relief (R. II: pp. 630-631). Those changes were made after the judgment and on June 9, 1950 (R. II: pp. 636-644).

On appeal to the Court of Appeals, that Court reversed in part and affirmed in part, holding (R. IV: p. 961):

> "The decree of the District Court is affirmed in so far as it holds the First Wilson patent, the Hunter patent and the second Wilson patent to be valid and infringed and in so far as it holds Acme to be entitled to an injunction against future infringement of these three patents by Eastern. The District Court's decree must be reversed in so far as it holds the Morse patent valid and in so far as it holds Acme entitled to damages for the infringement, up to the date of the complete purge, June 9, 1950, by Eastern of the three patents which we have held to be valid and infringed by Eastern."

Questions Presented

1. Respondent owns a patent relating to a two stage method and apparatus for manufacturing venetian blind slats. Respondent and one licensee practice the first stage producing unpatented slat stock. Respondent licensed about 400 blind manufacturers to practice only the second stage. Respondent's original licenses expressly compelled the licensees to buy the unpatented material used from respondent or its lone first stage licensee. Later, this express covenant was eliminated but the compulsion on the licensees was maintained by a limitation permitting the use only of unpatented material which had been subjected to respondent's first stage and by coercive cancellation and acknowledgment of validity clauses. Pursuant to the District Court's judgment, respondent thereafter made *verbal* changes in these licenses, removing certain suggestive clauses as to the source of the material to be used, which did not eliminate the limitations just stated or curtail respondent's coercive penalty powers over the licensees' purchases and which effectively left respondent and the first stage licensee as the sole sources of supply of the unpatented material. Does such a patent licensing system constitute such misuse by respondent of its patents as to bar respondent from enforcing them in this action?

2. On the facts stated in Question 1, and in the absence of any further showing by respondent of abandonment of its misuse, and with no showing of the dissipation of the effects of its misuse, is respondent entitled to enforce its patents?

3. On the facts stated in Question 1, does the making of these verbal changes constitute such a purging of re-

spondent's misuse of its patents as to entitle it to relief in this action?*

4. Wilson No. 2,338,678 discloses a specific apparatus and a specific flattening operation intended to be used to make uniform the transverse curvature of metal blind slats made according to Wilson No. 2,294,434. The Court held patent No. 2,338,678 valid, but it did not consider or decide the scope or the individual validity of its claims, which range in breadth from coverage of the combination of one or both of the steps of No. 2,294,434 with the flattening step of No. 2,338,678 to coverage, by itself, of the simple flattening step, although this flattening step is fully disclosed but not claimed in the prior art. Was this error?

Reasons Relied Upon for the Allowance of the Writ

1. The decision below, holding respondent entitled to enforce its patents after the June 9, 1950 revision of its licenses, is in conflict with the line of decisions of this Court represented by *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27 and *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661.

2. The decision below, holding that the second stage licenses, as modified June 9, 1950, do not constitute a misuse of respondent's patents, is in conflict with the decision of the Court of Appeals for the Third Circuit in *National Lockwasher Co.* v. *George K. Garrett Co.* (1943), 137 F. 2d 255, c. d., 305 U. S. 649, and the decision of the Court of Appeals for the Ninth Circuit in *McCullough* v. *Kammerer Corporation* (1948), 166 F. 2d 759, c. d., 335 U. S. 813.

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* Since the decision of this Court in the *Carbice* case, 283 U. S. 27, the question of patent misuse has been presented in at least 85 reported cases in the District Courts and the Courts of Appeal in the United States. At least 17 of the decisions therein have been concerned with whether the misuse has or has not been purged.

3. The decision below, with respect to the purging of the misuse, entirely ignores one of the conditions which this Court, in *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488 and *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, said was essential to re-entitle a patent owner, which has misused its patents, to enforce them: namely, a showing by the patent owner that the consequences of its misuse "have been fully dissipated."

4. The decision below, holding that a mere verbal revision of respondent's licenses on June 9, 1950—after the entry of judgment and without other showing—constitutes a purging of respondent's misuse of patents entitling it to relief in this action, decides an important question of Federal law which has not been, but which should be, settled by this Court.

5. The decision below, holding that Wilson patent No. 2,338,678 "appears to us to be a valid patent" (R. IV: p. 954), without consideration of its claims, is in direct conflict with the decision of this Court in *Altoona Theatres* v. *Tri-Ergon Corp.*, 294 U. S. 477, holding that each claim of a patent must stand or fall independently of the others.

WHEREFORE, petitioner prays that this petition for a writ of certiorari to the United States Court of Appeals for the Fourth Circuit be granted.

Respectfully submitted,

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New York, N. Y.,
June 26, 1951.

BRIEF IN SUPPORT OF PETITION

Opinions Below

The opinion of the District Court (R. II: pp. 619-631) is reported at 93 F. Supp. 233. The opinion of the Court of Appeals (R. IV: pp. 950-961) is reported at 188 F. 2d 247 and 89 U. S. P. Q. 93.

Jurisdiction

The original judgment of the Court of Appeals was entered on April 5, 1951. Its judgment denying petitions for rehearing filed by both parties* was entered May 11, 1951. The jurisdiction of this Court is invoked under 28 U. S. C. A. § 1254(a).

Statement of the Case

Misuse of the Patents

The misuse defense is based on practices of Acme built around the methods and apparatus claimed in Wilson '434. That patent (R. III: pp. 645-651) describes and claims a two stage process and apparatus for making metal venetian blind slats. It also contains one claim to a specific first stage method. In the first stage, the metal strip is stretched longitudinally between the edges, and, in the second, the edges are stretched and the strip curved transversely. Acme attempted unsuccessfully to patent the product of the first stage. This unpatented material is called "slat stock" (R. III: p. 888). It can be made by various processes (R. I: pp. 153-154, 172-173).

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* In this brief, Petitioner is referred to as Eastern; Respondent, as Acme, and parentheses and italics within quotes are ours unless the contrary is indicated. The record, which consists of four volumes, will be referred to as (R. I: p. 1).

Acme is a manufacturer of steel strip. It was not interested in manufacturing and selling venetian blinds but *was* interested in manufacturing and selling unpatented slat stock to be made into slats for blinds.

In 1944 Acme granted Thomas Steel Company (hereinafter called "Thomas") a license to practice the first stage of the process of Wilson '434 and of Hunter in the production of unpatented "slat stock." This license contained a covenant that Thomas would sell the unpatented slat stock *only* to Acme's second stage licensees* (Deft's Ex. NNN; R. III: pp. 878-880).

Also, in 1944, Acme granted licenses to a number of blind manufacturers to practice the second stage of Wilson '434. But these licensees were not allowed to use *any* steel strip: they were limited to the use of slat stock produced by the practice of the first stage, and were required by express covenant to purchase this either from Acme or from Thomas (Deft's Ex. RRR; R. III: pp. 887-889).

On July 1, 1948, Acme modified its second stage licenses by omitting the *express* covenant that the licensees purchase from Acme or Thomas the licensees' entire requirements of unpatented slat stock. The revised licenses, however, were expressly limited to the practice of the second stage "with the use of said slat stock produced by the practice of the first stage of said process," *i.e.*, Acme's first stage covered by certain claims of Wilson '434 and by Hunter. Also they retained recitals that Acme and Thomas were producing and selling slat stock to licensees authorized to practice the second stage, and that the

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* Acme granted two other first stage licenses (R. II: pp. 383-384, 392-393), but during the entire period in issue, Thomas has been Acme's *only* licensee making slat stock (R. I: p. 151). Acme also licensed an apparatus manufacturer (R. III: pp. 887-891) and entered into several licenses (R. III: pp. 869-877) as incidents to the acquisition of the Hunter and Morse patents. All contained restrictive covenants.

licensee "desires to purchase from Licensor [Acme], or from said First Stage Licensees [Thomas], 'slat stock' for use in said manufacture by it"; and that Acme was willing to supply "said slat stock" on certain terms and conditions. The licensee acknowledged the validity of the patents (including Wilson '678 to which the license does not extend) and Acme retained the absolute right to cancel the agreement for any reason or for no reason at all on ninety days' notice (Deft's Ex. TTT; R. III: pp. 893-898).

On December 1, 1948, just prior to the filing of this action, the Thomas agreement was modified in a generally similar manner (Deft's Ex. PPP; R. III: pp. 884-887).

The elimination of the *express* covenants was pure window dressing, as is shown by the fact that on May 16, 1949—almost a year after the first revision—Acme, in a license to an apparatus manufacturer, stated that it "has licensed others, who are known as 'second stage licensees,' to practice the second stage of said process in producing Venetian blind slats with the use of 'slat stock' *purchased from Acme and said first stage licensees*" (R. III: pp. 903-904). And Wilson, Acme's vice-president and the patentee of two of the patents in suit, testified on May 31st and June 1st, *1949*, that the "major portion" of the second stage licensees purchased from Acme and that by the "major portion" he meant at least ninety per cent. of all of them (R. II: p. 400). He also stated that Thomas sold considerable tonnage of the unpatented slat stock to the second stage licensees (R. II: p. 400). Both sold only to such licensees (R. II: pp. 380, 417).

The District Court held that Acme's revised licenses did not constitute misuse of its patents (R. II: pp. 630-631) but the Court of Appeals held that *both the original licensing set-up and the 1948 revision constituted a misuse* (R. IV: pp. 959-961).

Notwithstanding the holding of the District Court that there was no misuse, that Court required that the revised

second stage licenses be further revised (R. II: pp. 631-635). Pursuant to that judgment, on June 9, 1950, Acme cancelled its 400 existing second stage licenses and granted new, modified licenses to those licensees (R. II: pp. 636-644).

These revised licenses (R. II: pp. 640-644) still contain the restriction that the licensees can practice the second stage *only on slat stock which has been subjected to Acme's first stage.* And they still contain provisions coercive of the second stage licensees. Under these provisions the second stage licensees are required to notify Acme of any infringement of any patent referred to in the license; they are compelled to acknowledge the validity of those patents, including some under which they are not licensed; and Acme retains the absolute and arbitrary right of cancellation (R. II: pp. 640-644).

The effect of these licenses is to continue the requirement that the second stage licensees buy unpatented slat stock from Acme or Thomas.

It is pertinent, as the Court of Appeals noted (R. IV: p. 957), that during the period here in issue Acme derived only $30,000. in royalties from all of its approximately 400 second stage licensees, whereas, during the same period, Acme and Thomas sold them unpatented slat stock of a value of $30,000,000.

The Court of Appeals held that the change ordered by the District Court purged the licenses of the objectionable restrictions and that damages were recoverable after June 9, 1950, the date of the asserted completion of the purge (R. IV: pp. 960-961). But Acme has not proved—and, since the change had not occurred until after the judgment of the District Court, could not have proved—that it has fully abandoned its method of restraining competition in the sale of unpatented slat stock, and that the consequences of those practices have been fully dissipated.

Wilson '678

The validity of this patent was sustained by both the District Court and the Court of Appeals. It relates to a so-called third stage *per se* and to the combination of this third stage with the first and second stages or the second stage of Wilson '434. As disclosed, this third step consists in passing the strip beneath an idler roll, after which it is "flexed and looped upwardly" over an intermediate idler, thence downwardly between a pair of rolls "so spaced that they flatten out the metal strip," after which it passes to the cutter (R. III: p. 668).

Both the District Court and the Court of Appeals, without reference to the claims, and particularly without reference to those claims which cover the third step so broadly that *any* tranverse bending and flattening of a strip is an infringement, held the patent valid on the theory that it constituted invention to add this third step to the two separate and distinct steps of Wilson '434. The Courts below failed to recognize the admitted fact that the Morse patent (which is prior art against Wilson '678) shows a transverse bending step which similarly flattens. In effect, they held an old operation to be invention simply because a result hitherto unappreciated was recognized.

Argument

1. Acme's Present Licensing Structure, as Modified by the District Court, Constitutes Misuse of Its Patents.

Acme's original licensing program, by express covenant, required the 400 odd licensees to buy their requirements of unpatented material from Acme or from Thomas. The Court of Appeals, in full accord with the decisions of this Court, held this to be a misuse.

Acme, anticipating this holding, in June, 1948, revised its licenses to remove the express requirement that its licensees buy unpatented slat stock only from Acme or from Thomas, but the record here shows that the change did not affect the substance; that the revised licenses were limited to the use of slat stock made only by Acme's first stage method; that those revised licenses retained provisions coercive of the licensees; and that the licensees still bought the unpatented material from Acme or Thomas. And, again, the Court of Appeals held this to be a misuse.

But the District Court, which had held that Acme had not misused its patents, required *two minor changes* in Acme's 400 licenses. Following the judgment, and on June 9, 1950, Acme advised the Court that this revision had been made. The Court of Appeals held that this revision constituted a full purge and re-entitled Acme to enforce its patents. And this holding was made without regard to the facts—

(a) that the new licenses, which cost the old licensees nothing in royalties, retained every limitation and coercive provision of the licenses which had been held bad, and

(b) that there is not—and, since the change came after the decree and is attested to only by an affidavit, there could not be—a word in this record to indicate either that Acme has abandoned its intention to monopolize and restrain competition in unpatented slat stock or that the effects of Acme's misuse have been dissipated.

This holding, it is submitted, is in direct conflict with the rulings of this Court in the following cases:

Carbice Corp. v. *Am. Patents Corp.*, 283 U. S. 27, 31;
International Machines Corp. v. *U. S.*, 298 U. S. 131, 136-137;
Leitch Mfg. Co. v. *Barber Co.*, 302 U. S. 458, 463;

Ethyl Gasoline Corp. v. *U. S.*, 309 U. S. 436, 456, 459;
Morton Salt Co. v. *Suppiger Co.*, 314 U. S. 488, 490-493;
B. B. Chemical Co. v. *Ellis*, 314 U. S. 495, 497;
Mercoid Corp. v. *Mid-Continent Co.*, 320 U. S. 661, 666-667;
Mercoid Corp. v. *Honeywell Co.*, 320 U. S. 680, 684;
International Salt Co. v. *U. S.*, 332 U. S. 392, 395-396;
U. S. v. *Univis Lens Co.*, 316 U. S. 241.

Acme has been held to have misused its patents with respect to its original licensing set-up and with respect to that set-up as revised in 1948.

It has now altered one "Whereas" clause by omitting the recitation that the licensee "also desires to purchase from Licensor, or from said First Stage Licensees, 'slat stock' for use in said manufacture by it" (compare R. III: p. 895 and R. II: p. 641), and has deleted the word "said," qualifying "slat stock," in paragraph 1 of the offending licenses (compare R. III: p. 895 and R. II: p. 642). But it has not changed the substance and has not proved that it has altered its intent any more than it altered its intent by the modifications of 1948. And, despite the trivial verbal changes in the licenses, it still retains all of the power to coerce its licensees which it had under the 1948 licenses. Thus, the June 1950 licenses still confront the licensees with the recitation that licensee desires to practice the second stage "with the use of slat stock produced by the practice of the first stage of said process" and that Acme and Thomas are engaged "in producing and selling *to its licensees authorized to practice said second stage of said process* the product of said first stage which is known as 'slat stock' " (R. II: p. 641). And these recitations are followed by a license to practice the

second stage "with the use of slat stock produced by the practice of the first stage of said process" (R. II: p. 641). Who could this producer of the *unpatented* material be but Acme or Thomas, since Acme has a claim in Wilson '434 on its first stage method, and method and apparatus claims on the first stage in Hunter? And to make certain it would not be anyone but Acme or Thomas, Acme included in the new licenses the coercive clauses providing for (a) Acme's unqualified right to cancel, (b) a sweeping acknowledgment of validity covering patents and parts of patents not licensed, (c) a covenant not to contest validity of any of the recited patents, and (d) reports to the licensor of any infringement by others.

Can it possibly be said that the second stage licensees, under this set-up, are free to purchase unpatented slat stock where they will? Obviously not. If a licensee wanted to buy from someone other than Acme or Thomas, it would have to be from an infringer. But that source might be cut off at any time. The licensee would have to tell Acme of the infringement and Acme could put a stop to that and the licensee would have to look elsewhere. Naturally he would not look to another infringer but would be forced to buy from Acme or Thomas in order to continue under his license.

If the licensee were to buy from someone making the unpatented slat stock by some process other than Acme's first stage, he would be operating outside the license and would be open to suit by Acme for infringement. And if he were brave enough to do this, he would be estopped to contest validity of the patents by reason of the sweeping acknowledgment of validity in the agreement. Also, he would be courting the possibility that Acme, either before or after licking him in the infringement suit, would summarily cancel his license.

The coercive effect of the restrictions in the licenses cannot be ignored for they are still there.

There is nothing in this record to show that Acme's monopolistic intent, held by the Court of Appeals to have been established as to its original licenses and their 1948 modifications, has in any way changed. The most that can be said is that Acme's intent is not so blatantly manifested.

The situation here is somewhat comparable to that in *International Salt Co.* v. *U. S.*, 332 U. S. 392, which led the Court to observe (p. 400):

> "The fact is established that the appellant already has wedged itself into this salt market by methods forbidden by law. * * * And advantages already in hand may be held by methods more subtle and informed, and more difficult to prove, than those which, in the first place, win a market."

While there has been a formal and perfunctory cancellation of offending licenses, Acme, by the very act which cancelled the bad licenses, offered to its licensees new ones which preserved the substance of the old relationship and effectively maintained a compulsion on the second stage licensees to buy slat stock from Acme or from Thomas.

The holding of the Court below is also in direct conflict with the following decisions by the Courts of Appeals in the Third and Ninth Circuits:

National Lockwasher Co. v. *George K. Garrett Co.* (C. C. A. 3d Cir.), 137 F. 2d 255, c. d., 305 U. S. 649;

Park-In Theatres v. *Paramount-Richards* (D. C. Del.), 81 F. Supp. 466, 90 F. Supp. 730, aff'd (C. C. A. 3d Cir.), 185 F. 2d 407, c. d., June 4, 1951 and not yet reported;

McCullough v. *Kammerer Corporation* (C. C. A. 9th Cir.), 166 F. 2d 759, c. d., 335 U. S. 813.

The limitation in the second stage licenses requiring the licensees to use *only* slat stock made by Acme's first stage method and apparatus constitutes a covenant that the licensee will not traffic in slat stock except that made under the Wilson '434 and Hunter patents, although there are other ways of making it (R. I: pp. 153-154). Thus Acme is using its patent monopoly to suppress the manufacture of possible competing goods not covered by its patents—a practice condemned and held to constitute misuse in each of the above cited cases. In the *McCullough* case the Court aptly stated (166 F. 2d 761):

> "• • • there is no difference in principle between extending the monopoly of the patent by suppressing the manufacture or use of competitive devices, patented or unpatented, and the extension of the monopoly by prohibiting the use in making the patented article of unpatented articles competing with those made by the licensor's subsidiary, held against the public interest in Morton Salt Co. v. Suppiger Co., 314 U. S. 488, 493, 62 S. Ct. 402, 86 L. Ed. 363."

This conflict between Courts of Appeals should be resolved by this Court.

2. Acme Has Not Purged Its Misuse.

No case has directly presented to this Court the question of the acts which must be performed by a party which has misused a patent in order to re-entitle that party to enforce its patent.

However, in *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495 and *Morton Salt Co.* v. *Suppiger,* 314 U. S. 488, this Court did set forth certain minimum conditions which must be met to make a purge effective.

In the *B. B. Chemical* case this Court said (314 U. S. 498):

> "It will be appropriate to consider petitioner's right to relief when it is able to show that it has *fully*

abandoned its present method of restraining competition in the sale of unpatented articles and that the *consequences of that practice have been fully dissipated.*"

In the companion decision in the *Morton Salt* case, this Court said (314 U. S. 493):

> "Undoubtedly 'equity does not demand that its suitors shall have led blameless lives.' *Loughran* v. *Loughran,* 292 U. S. 216, 229; cf. *Keystone Driller Co.* v. *Excavator Co.,* 290 U. S. 240, 241-45, but additional considerations must be taken into account where maintenance of the suit concerns the public interest as well as the private interest of suitors. Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent. Maintenance and enlargement of the attempted monopoly of the unpatented article are dependent to some extent upon persuading the public of the validity of the patent, which the infringement suit is intended to establish. Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

And, as the statement of this Court in the *B. B. Chemical* case clearly shows, the burden of showing this is on Acme. See also, the *International Salt* case, 332

U. S. 400. Here, Acme has not shown it has "fully abandoned its * * * method of restraining competition in the sale of unpatented" slat stock and it has not shown "that the consequences of that practice have been fully dissipated."

3. The Holding That Wilson '678 is Valid Ignores the Claims in Measuring the Invention.

This Court has repeatedly said that it is the claims of a patent which define the invention and that each claim must stand on its own feet as though it were a separate and distinct patent. In *Altoona Theatres* v. *Tri-Ergon Corp.*, 294 U. S. 477, this Court said (p. 487):

> "The Court of Appeals, in upholding the patent, made no examination of its separate claims, * * *. Under the statute it is the claims of the patent which define the invention. * * * And each claim must stand or fall, as itself sufficiently defining invention, independently of the others."

The Court below gave no consideration to the claims of Wilson '678 but considered it as a whole and as though each claim were addressed to the addition of a third stage to the two stage process of Wilson '434 (R. IV: p. 954). The fact is that Claims 7 and 8 are totally unrelated to the two stage process of Wilson '434 since they are addressed *per se* to the step of temporarily flexing the strip to a flat cross-section. Claims 13 to 17, inclusive, and 19, are likewise unrelated to the two stage process of Wilson '434 as they claim an alleged combination of the transverse forming of the strip with the stage of flexing to a flat cross-section. The remaining claims, however, do encompass the two steps of Wilson '434 and the flexing of the strip. While invention may be found in the combination of these claims there is no attribute of invention in the very much broader claims that assume to cover *any* bending of a metal strip.

The Court of Appeals held that "there is certainly nothing anticipatory" of Wilson '678 in the prior art Morse patent, No. 2,315,640. This is contrary to and irreconcilable with the fact that Claims 7 and 8 of Wilson '678 are so broad they clearly would be infringed by Morse.

The entire method of Claim 7 is defined as—

> "running the strip longitudinally and bending the strip endwise and progressively and temporarily producing a flat cross section" (R. III: p. 670).

Claim 8 is exactly equivalent.

And so is Morse, who taught that—

> "The material in the roll 14 has lateral pre-formed curvature, but because of winding the material in the coil 14, the curvature is flattened out temporarily" (R. III: p. 655: c. 1, II. 35-38), and

> "The rolling of the material in a coil flattens out the curvature of the material, as suggested at 16. Then when the material is uncoiled, as shown at 15, the pre-formed curvature returns as shown at 7, due to the resilience of the material" (R. III: p. 655: c. 2, II. 31-36).

The error of the Court below becomes perfectly apparent from its statement of the alleged invention of Wilson '678. The Court stated (R. IV: p. 954):

> "Under this third stage, the transversely curved strip material, after passing through the forming rolls of the second stage, is flexed in a direction transverse to its line of travel, whereby it becomes buckled or progressively flattened by the removal from its successive portions of a large part of the transverse curvature that had been imparted by the forming rolls. After passing through the flattening operation,

the transverse curvature returns, but to a lesser degree, to the strip, due to its resiliency."

This is identical with the teaching of Morse.

The only thing which by any stretch of the imagination was new with Wilson was his observation that this old bending operation tended to make uniform the cross-sectional shape of the strip. But the observation of a result has never been held to constitute invention. And the result, whether observed or not, had then been achieved by Morse. The uncontradicted testimony of Wilson on cross-examination is to this effect (R. I: pp. 156-158).

Conclusion

For the reasons stated, we submit that the petition should be granted and the points discussed above considered and ruled upon by this Court.

Respectfully submitted,

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New York, N. Y.,
June 26, 1951.

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CLERK

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1951

No. 150

THE EASTERN VENETIAN BLIND COMPANY,
Petitioner,

vs.

ACME STEEL COMPANY,
Respondent.

BRIEF FOR RESPONDENT IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

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Introduction

This is a patent infringement suit in which the well worn defense of alleged misuse of the patents was raised by the defendant-petitioner, an admitted and willful infringer of all four patents originally in suit.

There is no conflict of decisions on any question decided in this case and no question presented which is of such general or public importance as to require the review of the case by this Court. The alleged "questions presented" which are referred to at page 3 of the petition are based upon an inaccurate and unfair statement of the facts at crucial points and upon misinterpretations of the opinions

of the lower courts and of the license agreements, as we shall show.

This is merely another case where a greedy defendant, having fared very well before the Court of Appeals in escaping responsibility for a large portion of its piracy of respondent's valuable inventions, now seeks the aid of this Court in an effort to evade *all* financial responsibility for its actions.

The real questions presented will be here briefly summarized and will be dealt with further after the facts have been more fully and accurately stated.*

Questions Presented.

The real questions presented may be very simply stated as follows:

1. Does Acme's present second stage license, which grants to the licensee the right to practice the second stage of Acme's two stage process, with the use of the product of the first stage, involve misuse when the process claims of the patent only cover both stages in combination and Acme therefore has patent coverage on the second stage only when practiced with material which has been subjected to the process step of the first stage? Acme could not grant a license to practice the second stage with ordinary strip steel or any other material not treated by the first stage for to do so would be to grant a greater right than Acme can legally give. The scope of the license is defined in exact accordance with the patent grant and the words "with the use of slat stock produced by the practice of the first stage of said process" are merely words of authority and not

* In this brief, petitioner is referred to as "Eastern" and respondent as "Acme." References to the record of four volumes will appear, for example, as (R III, p. 20); exhibits will be identified by number or letter and by the pages where they appear in the record but the places where they were offered have not been identified because those parts of the record have not been printed.

words of limitation. The second stage licensee is not required to purchase the product of the first stage either from Acme or from a first stage licensee.

2. Is the holding of the Court of Appeals, that all of the claims of the Wilson '678 patent are valid, in conflict with the decision of this Court in *Altoona Pub. Theatres* v. *Am. Tri-Ergon Corp.*, 294 U. S. 477, in the absence of any proof that the Court of Appeals failed to consider every claim of this patent?

STATEMENT OF THE FACTS.

In order that the license agreements may be fully understood, it is first necessary to have an understanding of the patents in suit among which are the Wilson '434 and '678 patents included in the licenses complained of.

Wilson '434 Patent.

The Wilson patent in suit No. 2,294,434 (Exh. 1, R. III, pp. 645-651), which has revolutionized the metal Venetian blind industry, relates to a method of and apparatus for forming Venetian blind slats from thin resilient strip metal. In order to maintain thin metal slats (eight thousandths of an inch thick) straight and parallel with each other in the finished blind, it is necessary to impart a transverse curvature thereto so that they have beam strength and do not sag. As pointed out by Wilson (R. II, pp. 445, 461-462), a straight, thin, metal Venetian blind slat having this transverse curvature cannot be produced merely by roll forming ordinary commercial strip steel for the reason that *irregularities* in the lengths or thickness of, and in the internal stresses in, different portions of the metal strip cause it to emerge from the rolls in a longitudinally curved form or other undesirable shape. The Wilson invention solved that difficulty while using ordinary commercial strip steel (R. I., p. 127) by first creating,

in a first stage operation, a *known* condition of the stresses in the metal strip and then treating this *known* condition in a certain manner in a second stage operation (R. I., pp. 45-46) with the result that the slats are longitudinally straight and transversely curved.

More specifically, Wilson in the first stage of his process effects a permanent longitudinal stretching of the intermediate portion of the commercial strip steel and then, during a second stage operation, the strip is bent transversely to impart a permanent transverse curvature thereto and the edges are permanently stretched longitudinally until all portions of the strip are stretched to the same extent, whereupon the metal strip emerges as a thin, resilient, and transversely curved straight slat.

The claims of the Wilson '434 patent which are in suit (1 to 10, incl.) are directed to the two stage process and to the two stage apparatus by which the metal strip is first stretched longitudinally in its intermediate portion, thereby producing an intermediate center stretched product known as "slat stock," and is then curved transversely and its edge portions are stretched longitudinally. The two stages are included in combination in each claim in suit (for example, see claim 7, R. III, p. 651) and there is no claim in the patent which covers the second stage of the process alone. The Wilson '434 patent does have a single claim, No. 11, not in suit, which covers the first stage of the Wilson process by itself.

Hunter '047 Patent.

The Hunter '047 patent (Exh. 3, R. III, pp. 657-662) covers another method and apparatus for center stretching the metal strip to produce slat stock and this Hunter method was used by Eastern as a substitute for the first stage operation covered by claim 11 of Wilson in conjunction with Wilson's second stage operation so that Eastern thereby infringed both Hunter and the two stage claims of Wilson.

The Wilson '434 patent and the Hunter patent were held to be valid and infringed by both the District Court (R. II, pp. 619, 624-627) and the Court of Appeals (R. IV, pp. 951, 953) and Eastern's petition to this Court does not raise any question as to those findings.

Wilson '678 Patent.

The second Wilson patent, No. 2,338,678 (Exh. 4, R. III, pp. 663-670) which is the only patent attacked by Eastern's petition, is directed to an improvement which was discovered during the early practice of the invention of the Wilson '434 patent. It was found that the slats produced by the two stage operation of the '434 patent were not always uniform in transverse curvature. This condition arises from the fact that successive portions of commercial strip metal employed in the process which are specified as being of the same gauge are not, in fact, of precisely uniform gauges. Also, there is sometimes a variation in the gauge of the metal in the same strip or coil. This causes successive parts of the same strip or, more frequently, different strips which are supposed to be of the same gauge, to assume different degrees of transverse curvature after passing through the second stage of the '434 process.

When thin and hard resilient steel employed in the manufacture of such slats is bent transversely during the second stage operation it tends, after passing through the forming rolls, to return to its original condition. For that reason the forming rolls are designed to impart to the strip a greater curvature than that desired in the finished product. Thick material does not spring back toward the original condition to the same extent that thin material does and that inherent tendency gives rise to the variation in the transverse curvature of the finished slat material.

When using the two stage method of the first Wilson patent it was necessary to use a different set of forming

rolls for different thicknesses of commercial strip material supposed to be of the same gauge, if it were desired to produce the same transverse curvature regardless of variations in gauge (R. I, pp. 59-62).

This necessity was overcome by the invention of the Wilson '678 patent, which made it possible to use the same forming rolls on all strip material of the same commercial gauge, within the limits of the usual variations in that gauge, and to produce, nevertheless, a product having a uniform transverse curvature (R. I, pp. 59-62).

This highly advantageous result was accomplished by combining the two stages of the first patent with a third stage during which the metal strip is progressively and temporarily flattened as it passes from the forming rolls of the second stage. After the strip is temporarily flattened, the transverse curvature returns to the metal strip due to its resiliency, but to a lesser degree,and a greater degree of curvature is removed in this manner from the thicker material than is removed from the thinner material. Thus, the degree of correction effected by temporary flattening for different thickness is in proportion to the tendency of those thicknesses to retain the curvature induced by the forming rolls. By this ingenious discovery, it was made possible to carry on the slat forming operation in a continuous process and to produce with a single set of forming rolls slats of uniform transverse curvature and more attractive appearance (R. I, pp. 59-65).

The License Agreements.

The controversy as to alleged misuse has to do solely with Acme's second stage license agreement and solely with the form of that agreement as it now exists (Snodell Exh. B, R. II, pp. 640-644), after being modified on June 9, 1950, in accordance with the order of the District Court

(R. II, pp. 633—635). But a review of the precedents of that agreement is desirable in order fully to appreciate the weakness of Eastern's present contentions.

At the time when Acme first prepared to grant licenses under its Venetian blind slat patents, Acme was not itself interested in manufacturing and installing completed Venetian blinds nor was it equipped to do so, although it was prepared, as a roller and fabricator of strip steel, to carry on the first stage of the process of the Wilson '434 patent (R. I, p. 5). Also, there were then very few, probably only two or three, Venetian blind slat manufacturers in this country who were of such financial ability that they could be expected to incur the substantial investment required to carry on the first stage of the process in addition to the second stage thereof. Most of the Venetian blind manufacturers were relatively small concerns but among these there were, however, several hundred who might be expected to carry on the second stage of the process with the product which had been subjected to the first stage of the process (R. I, p. 5).

The maintenance of a high quality in the metal Venetian blind slats was considered important if they were to compete successfully with the wooden slats which then dominated the market and, to this end, it was decided that the best method of promoting the inventions would be to confine the practice of the first stage to plaintiff and to a limited number of steel producers who could be depended upon to turn out center stretched slat stock of a high quality, but these steel producers were not interested in practicing the second stage or in marketing completed slats or Venetian blinds (R. I, p. 5).

Extensive experiments showed conclusively that it was necessary to prepare the slat stock against weather and abuse by giving it galvanizing and zinc phosphate coatings.

Certain steel companies had the necessary galvanizing and coating equipment and they were approached by Acme as prospective first stage licensees (R. I, pp. 5-6).

Also, it was decided that licenses should be freely granted to Venetian blind manufacturers to practice the second stage of the process with the product of the first stage, thus making possible a wide distribution of the benefits of the inventions throughout the country. However, neither Acme nor the other steel producers nor the Venetian blind manufacturers were engaged in the manufacture of machinery and it was, therefore, necessary to have a third class of licensees, to be known as "machine licensees," who could manufacture the apparatus employed in the practice of the second stage and the third stage of the process (R. I, p. 6).

Original Licenses.

Before any licenses were granted, the Wilson '434 patent (Exh. 1, R. III, pp. 645-651) had issued with process claims covering the second stage process step in combination with the first stage step by which the center stretched "slat stock" is produced. The patent contained no claim covering the second stage process step by itself. Accordingly, the original second stage licenses (Exh. RRR, R. III, p. 887) granted the licensee the right to practice the second stage of the process "with the use of said 'slat stock' produced by the practice of the first stage of said process." This was not a restriction but a definition of the scope of the license—the only scope the license could have in view of the nature of the patent grant. And, since it was considered necessary that the center stretched material be of such quality that it could be employed successfully in the practice of the second stage, paragraph 2 of the original second stage license agreement required the second stage licensee to purchase his requirements of slat stock from Acme or

from a first stage licensee. Also the first stage licensees were licensed under the Wilson and Hunter patents to produce slat stock for use in the practice of the second stage of the process, and were required by paragraph 1 of their licenses to sell their product only to second stage licensees (Exh. NNN, R. III, p. 878).

A first stage license of this form was granted to Thomas Steel Company and another to John Roebling & Sons Company (R. I, p. 8) and by the end of June, 1948, there were four hundred and eleven of such second stage licensees (R. I, p. 8). All of these first and second stage licenses were cancelled prior to the filing of the complaint herein on December 8, 1948, and the alleged misuse based on those agreements was thus a moot question when the case was tried in April, 1950, and the District Court rightly did not consider that question but left it open for the accounting (R. II, p. 635). Also, the Court of Appeals did not decide any such question, as appears from its opinion (R. IV, p. 959) where, after referring to the rule of the *Mercoid* case (*Mercoid Corporation* v. *Mid-Continent Investment Company et al.*, 320 U.S. 661), it said:

> "It may be questioned whether the rule extends to the present situation in which the unpatented article, that is, the slat stock, has been subjected to a part of the process covered by the patent and is to be finished in accordance therewith; but that question *need not be decided* since Acme, recognizing the strict limits within which the patent monopoly must be exercised, *released its second stage licensees from any restriction upon their purchase* of slat stock before the trial of the case in the District Court, * * *."*

1948 Modified Licenses.

The release of the second stage licensees from any restrictions upon their purchases, referred to by the Court

* Italics here and elsewhere in this brief are ours unless otherwise indicated.

of Appeals in the passage just quoted, was effected on July 1, 1948, when all of the original second stage licenses were cancelled and each licensee was offered a new form of license (Exh. TTT, R. III, p. 893) accompanied by a letter (Exh. SSS, R. III, p. 892) stating that the new license was less restrictive than the old one. The principal changes were the elimination of old paragraph 2 of the original second stage license (Exh. RRR, R. III, p. 887, 890), which specifically required the second stage licensee to purchase its requirements of slat stock from Acme or from a first stage licensee, and the elimination from the preamble of a statement that the licensee was desirous of purchasing "its requirements" of slat stock from those sources.

Also, during the year 1948, and prior to the filing of this suit, the first stage license to Thomas (Exh. NNN, R. III, p. 878) was modified, as a result of negotiations with a new first stage licensee, American Steel and Wire Company, so that the first stage licensees were no longer required to sell slat stock only to second stage licensees but were free to sell to anyone (Exh. PPP, R. III, p. 884).

The first and second stage licenses continued in the form in which they were put in 1948, prior to the filing of the complaint herein, until the time of trial in April 1950, and thereafter until June 9, 1950, when the second stage licenses were slightly modified as directed by the District Court (R. II, pp. 633-635, 640).

At the trial, Eastern complained only of the second stage license agreements in support of its alleged defense of misuse. Acme then took the position, as it has ever since, that the old original first and second stage license agreements were not before the Court because they had been discontinued prior to the filing of the complaint and would only be pertinent, if ever, in the event of an accounting for past infringement. The District Court therefore prop-

erly considered only the then existing second stage license agreements and held that the defense of unclean hands was untenable (R. II, p. 631).

In the judgment subsequently entered by the District Court it was decreed that the defense of unclean hands had not been sustained (R. II, p. 633) but that the issuance of an injunction be withheld until the second stage license had been made "entirely clear" (R. II, p. 631) in the respect indicated by paragraph 4 of the judgment (R. II, pp. 632, 633-634). The changes the Court directed were intended to make it abundantly clear, even to one who had no previous contact with the license, that he is not required to purchase slat stock from Acme or from its first stage licensees. In short, they were intended to avoid the misinterpretation which Eastern had sought for its own purposes to give to these agreements. The changes made were of a minor nature and as the District Court stated were made "to make assurance doubly sure" (Original Trans. Vol. III, p. 1862).

There was no evidence that any licensee or prospective licensee had ever been so deceived. It is a noteworthy circumstance that, as pointed out by the Court of Appeals in a footnote of its opinion (R. IV, p. 957), *"the evidence does not show that the second stage licensees felt obliged to purchase only from Acme or Thomas."* This is so although Eastern had been furnished a complete list of names and addresses almost a year before the trial of the case (R. II, p. 397), and thus had ample opportunity to find licensees, if there were any, who felt obliged to purchase slat stock from Acme or its first stage licensees. Also, it is true, as the Court of Appeals pointed out in the said footnote (R. IV, p. 957) that "there is some evidence that they (the second stage licensees) actually made purchases from others."

The Court of Appeals, however, although holding that the question of misuse by the original license agreements "need not be decided" and that, with respect to the modified second stage license agreements, Acme had "released its second stage licensees from any restriction upon their purchase of slat stock before the trial of the case in the District Court," as pointed out above (R. IV, p. 959), concluded that the right of Acme to recover damages for infringement was barred until Acme "had purged the licenses of the objectionable restrictions" and that "Since this purge was not completely accomplished until June 9th, 1950, damages are not recoverable for any infringement prior to this date"!

Further facts will be stated in argument.

ARGUMENT.

1. Alleged Misuse.

It is, of course, impossible to reconcile the statements of the Court of Appeals to which reference has just been made. Since neither that Court nor the District Court found that there was any misuse at any stage, no "purge" was necessary on June 9, 1950. The minor changes which were then made were "to make assurance doubly sure" as the District Court said. The purge of the second stage agreements, if it be assumed that any was required, had in fact occurred nearly two years before, as the Court of Appeals found when it said that the second stage licensees had been released from any restrictions upon their purchase of slat stock before the trial in the District Court (R. IV, p. 959).

Since there never was a finding of misuse, how could there be any "evil consequences to be dissipated" on June 9, 1950, or at any other time? The burden surely was upon Eastern, not only to show that there was misuse, but also to show the existence of evil consequences to be dissipated. But Eastern failed in both respects because, as we have seen, the Court of Appeals found that the restrictions had been removed and also that *"the evidence does not show that the second stage licensees felt obliged to purchase only from Acme or Thomas"* (R. IV, p. 957). If they did not feel so obliged, the license agreement obviously had no improper influence upon them and there were no evil consequences to be dissipated.

If it be assumed for argument that the restrictions which were in the original agreement constituted misuse, it is manifest that any consequences thereof must have

been dissipated prior to June 9, 1950, since those restrictions were removed on July 1, 1948.

And if we assume, contrary to the findings of both Courts, that the restrictions still lurked somewhere in the agreements notwithstanding their express removal (!), how could they still be present after June 9, 1950, either in the new agreements or in the minds of the licensees, in view of the fact that on that date these new agreements were transmitted by Acme to each licensee with a copy of the Judgment of the District Court and a letter (Snodell Exh. A, R. II, p. 638) which said:

> "As appears from paragraph 4 of that Judgment, the Court did not sustain the defense of 'unclean hands,' based upon alleged misuse of Acme's patents in its existing license agreements, but it did direct that the existing second stage license agreements be modified in the manner indicated. *This change is intended to make it impossible for these agreements to be misinterpreted as requiring that the second stage licensees purchase their requirements of slat stock either from Acme Steel Company or from its first stage licensees.*"

The fact that the second stage licensees were so informed was established by affidavit (R. II, pp. 636-644) in accordance with the direction of the Judgment of the Court (R. II, pp. 634-635) that it be shown to the Court "*by affidavit*" that the directed changes had been made, thereby entitling Acme to the issuance of an injunction. Eastern's counsel says, however, that this is not sufficient proof but does not question the fact that the changes were made and that the licensees were notified of the change and their intended purpose, as indicated above.

The proof of purging was established by affidavit in the case of *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, 339 U. S. 827, 94 L. Ed. 1312, decided by this Court in 1950. There the original license agreements con-

tained a restrictive use notice. Three years after the licenses were granted, the plaintiff sent a *letter* to all of its licensees waiving the restrictive provision. This was about eighteen months before the suit was filed. The proof of the sending of these letters was established by *affidavit.* This Court in effect held (339 U. S. 827, 835-836) that even if the restrictive provision had at one time constituted misuse, the misuse had been purged by the sending of the letter and that the issue, therefore, was moot.

In the present case, Eastern made no objection to the affidavit at the time of its filing and should not be heard to do so now.

Moreover, it appears that the courts have universally accepted as proof, not only of the purging but of the dissipation of the evil effects, a showing that the offending provisions of the license agreements have been removed, as indicated by the decision just cited, as well as by the following cases:

Campbell, et al. v. *Mueller, et al.* (C.C.A. 6, 1947), 159 F. 2d 803, 806-807;

Westinghouse Elec. Corp. v. *Bulldog Elec. Prod. Co.* (C. A. 4, 1950), 179 F. 2d 139, 145-146;

Flexwood Co., et al. v. *Matt G. Faussner & Co.* (C.C.A. 7, 1944), 145 F. 2d 528, 542;

Sylvania Industrial Corporation v. *Visking Corporation* (C.C.A. 4, 1943), 132 F. 2d 947, 957-958; and

Air Products, Incorporated v. *Boston Metals Company* (D. Ct., Md., 1951), .. F. Supp. .., 89 U.S.P.Q. 574, 581-582.

Accord: Baker-Cammack Hosiery Mills, Inc. v. *Davis Co.* (C. A. 4, 1950), 181 F. 2d 550, 569, 571; cert. denied 340 U. S. 824; and *Universal*

Sewer Pipe Corporation v. *General Const. Co.* (D. Ct., Ohio, 1941), 42 F. Supp. 132.

Alleged Misuse Since June 9, 1950.

The substance of Eastern's point as to misuse, although stated in variant language in multiple questions, is simply whether the presently existing second stage licenses, which were framed to embody the changes directed by the District Court, involve misuse of the patents. The answer is clearly in the negative.

Eastern's contention to the contrary appears to be based largely upon the fact that the licensees are authorized by paragraph 1 of their licenses to practice the second stage "with the use of slat stock produced by the practice of the first stage of said process" (Snodell Exh. B, R. II, p. 642). Of course they are. That was the only right that could be given them because, as pointed out above at page 4, the Wilson '434 patent contains no process claims on the second stage alone but only on the second stage when practiced in conjunction with the first stage. Acme has no right to license others to practice the second stage with ordinary commercial strip steel or with steel otherwise treated. If Eastern or any other concern wishes to practice the second stage of the process with commercial strip steel or with other steel which has not been treated by the first stage of the Wilson process, it may do so without a license and without infringing any of the two stage process claims. The fact that the second stage license agreements are directed to the practice of the second stage only with the product of the first stage is a mere definition of the scope of the license imposed by the scope of the patent grant and not a restriction imposed by contract. This has been recognized by the District Court and by the Court of Appeals and this definition of the scope of

the license has never been regarded by either court as constituting misuse.

And if nobody can produce the product of the first stage without infringing the first stage claim of the Wilson '434 patent or the claims of Hunter, so that the producer is an infringer, as asserted by Eastern at page 13 of its brief, then that too is a condition which arises legitimately from the patent grants and not from the license agreement. However, Eastern's argument along this line is effectively answered by its own statement, at page 15 of its brief, that "there are other ways of making it." If there are other ways of making the first stage product, the first stage producer need not infringe and, contrary to the statement of Eastern near the bottom of page 13 of its brief, the second stage licensee would not be an infringer. Here again, counsel for Eastern is confused as to the significance of the clause by which the second stage licensee is *authorized* to practice the second stage with the product of the first stage; that language designates the *kind* of product but not its *source*.

Following its argument which has just been dealt with, Eastern refers (at page 13 of its brief) to alleged "coercive clauses" of the license agreement, viz., (a) Acme's right of cancellation, (b) acknowledgment of validity of the patents named in the license, (c) a covenant not to contest validity and (d) reports by the licensee of infringement by others.

Eastern fails to mention that paragraph 5 of the agreement (Snodell Exh. B, R. II, p. 643) gives the licensee the same right of cancellation that Acme has. If the licensee does not like the agreement or its operations thereunder it may cancel at any time. This is obviously not coercion. The second stage licensees have been free to buy their slat stock wherever they chose, at least since July 1, 1948, when the

original express convenant to buy from Acme or its first stage licensees was removed. This position is evident from Acme's consistent conduct. For it has never criticized second stage licensees for buying from nonlicensed producers (R. I, pp. 398-399), despite the fact that some of these licensees have obtained slat stock from Eastern (R. I, p. 10), an admitted infringer. No second stage license has ever been canceled because of any such conduct (R. I, p. 399).

The acknowledgment of validity and the agreement not to contest validity are merely a written statement of the estoppel which is imposed by law upon a licensee. Cf. *Automatic Radio Mfg. Co., Inc.* v. *Hazeltine Research, Inc.*, 339 U. S. 827; 94 L. Ed. 1312 (1950). It has been uniformly held that such a provision in a license agreement is not unlawful or against public policy.

> *Steiner Sales Co.* v. *Schwartz Sales Co.* (C.C.A. 10, 1938), 98 F. 2d 999, 1009; cert. denied 305 U. S. 662;
>
> *Baker-Cammack Hosiery Mills, Inc.* v. *Davis Co.*, (C.C.A. 4, 1950), 181 F. 2d 550, 569; cert. denied 340 U. S. 824.

It is not true, as asserted by Eastern in its petition and brief (and raised for the first time in its petition for rehearing), that the acknowledgment of validity extends to patents which are not licensed. The second stage license (Exh. TTT, R. III, p. 894; Snodell Exh. B, R. II, p. 640) recites five patents by number in the preamble, including the Wilson '434 and '678 patents, and paragraph 3 of each form of the second stage license recites that "Licensee acknowledges the validity of each of said Letters Patent" and that the licensee agrees not to contest the validity "of any of said Letters Patent." In the granting clause (para-

graph 1) of the same agreement it is recited that: "Licensor hereby grants to Licensee a non-exclusive license (under said Letters Patent but no others) . . . ." It is clear, of course, that "said Letters Patent" refers in *both* the granting clause and in the acknowledgment of validity to *all* of the five Letters Patent recited in the preamble. The second stage agreements have always been so construed by Acme and its licensees and the second stage licensees have practiced both the second stage of the Wilson '434 patent and the third step of the Wilson '678 patent. The machine licensees (Exh. WWW, R. III, p. 903) have manufactured and sold to the second stage licensees apparatus for performing both the second and third stages (Exh. 40 and 42, R. III, pp. 685, 687; R. I., p. 70; Original Trans. Vol. II, p. 352).

The obligation of the second stage licensee to report the names of infringers certainly does not constitute misuse and is merely a corollary to the obligation not to contest validity. Since the license agreement imposes no obligation upon the licensee to purchase from Acme, and he has been expressly so informed (see page 14 above), he cannot get into difficulty if he does furnish the names of infringers.

Eastern's argument to the contrary is based upon a misconception of the law and the facts for it is asserted at page 13 of Eastern's brief that if the licensee were to purchase "slat stock" produced by "some process other than Acme's first stage, he would be operating outside of the license and would be open to suit by Acme for infringement." In the first place, "slat stock" is by definition the product of the first stage as defined broadly in the two stage claims of Wilson '434 (see page 4 above) so that the situation supposed is impossible. In the second place, if the second stage licensee were to use some product other than the center stretched product of the first stage, *he would*

be not only outside of the license but also outside of the patent and therefore not subject to suit by Acme.

Finally, in groping for support for its petition, Eastern asserts at page 14 of its brief that the decision of the Court of Appeals is in direct conflict with the decisions of the Courts of Appeals of the Third and Ninth Circuits in the *National Lock Washer* case (137 F. 2d 255), the *Park-In Theatres* case (81 F. Supp. 466, 90 F. Supp. 730), and the *McCullough* case (166 F. 2d 759). It is argued that the provision that the second stage licensee may practice the second stage "with the use of slat stock produced by the practice of the first stage of said process" constitutes a covenant that the licensee "will not traffic in slat stock except that made under the Wilson '434 and Hunter patents, although there are other ways of making it."

Manifestly, Eastern's contentions in this respect are unfounded. The language of the agreement referred to is a permissive clause and defines the scope of the license within the scope of the patent grant, as we have pointed out. It makes no reference to the specific first stage methods of the Wilson and Hunter patents but it does include any center stretched product as defined by the *two-stage* claims of Wilson '434. If any second stage licensee can practice the second stage with a product which is not produced by the first stage method as defined in those two-stage claims, he is free to do so and Acme has no control over him. Nor does the clause in question attempt any such control. If the second stage is carried on with the use of slat stock produced by the first stage (as that first stage is broadly defined by the two-stage claims) then Acme is entitled to control the practice by virtue of the patent grant, and such control does not constitute misuse.

The cases cited by Eastern hold that a patent may not be used to suppress the manufacture and sale of competing unpatented articles. Here, the licensee is free to make Venetian blind slats by any other method and may without a license use Acme's second stage with strip steel not produced by the first stage, if he can make it work. To contend that Acme is using the patent to prevent competing practices by the licensee is as absurd as it would be to contend that if A grants B a license to drive over his property, B is thereby restricted from passing over the property of C.

2. The Wilson '678 Patent.

Eastern's contention concerning the Wilson '678 patent (Exh. 4, R. III, pp. 663-670) is that the Court of Appeals, in holding the patent valid and infringed, did not consider all of the claims of the patent and it is asserted that this is in violation of the decision of this Court in *Altoona Pub. Theatres* v. *Am. Tri-Ergon Corporation,* 294 U. S. 477.

The contention is based upon an unfounded premise because it *assumes* that the Court of Appeals did not consider all of the claims when there is nothing in the Court's opinion to justify that conclusion.

In quoting from the decision of this Court in the *Altoona* case, Eastern's counsel left out pertinent parts of the first passage which reads in full as follows (p. 487):

> "The Court of Appeals, in upholding the patent, made no examination of its separate claims, but treated the patent throughout as though it were a combination of five distinct elements, the photoelectric cell, the arcuate flexing of the film, the flywheel, the flexible connection of the flywheel and the optical slit, *although nowhere in the patent is any such combination claimed.* The patent thus upheld is one which was neither claimed nor granted. Under the statute it is the claims of the patent which define the invention."

At a later point, the Court mentioned the long established principle that each claim stands on its own feet, in the following language:

> "And each claim must stand or fall, as itself sufficiently defining invention, independently of the others."

Of course, in the instant case, the claims were not upheld because of the incorporation therein by argument of something not actually recited in the claims, as was the fact in the *Altoona* case. Here every element or step upon which validity was based is found in the claims and there is no basis for Eastern's assumption that the Court did not consider all of them.

The nature of the Wilson '678 invention has been explained above at pages 5 to 6, and we there pointed out the great advantage of the improvement in treating the product of the second stage of the Wilson '434 patent to produce finished slat material of uniform transverse curvature in spite of variations in gauge. The fact that the Court of Appeals appreciated the merit of the third stage flattening step by itself as well as in combination with the two steps of the first Wilson patent is indicated by the following passage from its opinion (R. IV, p. 954):

> "Under this third stage, the transversely curved strip material, after passing through the forming rolls of the second stage, is flexed in a direction transverse to its line of travel, whereby it becomes buckled or progressively flattened by the removal from its successive portions of a large part of the transverse curvature that had been imparted by the forming rolls. After passing through the flattening operation, the transverse curvature returns, but to a lesser degree, to the strip, due to its resiliency. In this manner a greater degree of curvature is removed from the strip material which has a greater thickness, thus producing the result that the strip material is caused to assume ap-

> proximately the same transverse curvature. *There is nothing in the prior art that anticipates this disclosure.* Second Wilson seems to embody a rather clear advance over First Wilson and Hunter, *and there is certainly nothing anticipatory in Morse.* • • • We think the District Judge was right in upholding the assertion that *Second Wilson produces a uniformity of the lateral arc in a manner not previously disclosed.*"

That passage does not indicate that the Court did not consider all of the claims or that it failed to consider claims 7 and 8, the particular claims to which Eastern refers in its petition. The District Court did specifically mention claims 8 and 14 as "*typical*" method and apparatus claims, respectively (R. II, p. 624), and concluded (R. II, p. 627), after hearing the testimony of witnesses on both sides and considering the prior art, including the Morse patent, that the Wilson '678 patent covered a new and meritorious invention and was a valid patent.

In quoting from claims 7 and 8, Eastern conveniently leaves out the reference to "reducing and rendering substantially *uniform* the transverse curvature of an elongated metal strip having *a varying transverse curvature in successive parts thereof*" (claim 8, and similar language in claim 7) which define features not disclosed by Morse who was dealing merely with the properties of strip material to be wound in a coil for shipment to the trade, a practice which is not followed by any of Acme's four hundred and eleven licensees.

Thus we have concurrent findings by both of the Courts below with respect to the validity of the Wilson '678 patent and this finding of fact should not be set aside unless clearly erroneous. This rule has, of course, been recognized and followed by this Court in numerous cases including that of *Graver Tank & Mfg. Co., Inc. et al.* v. *Linde Air*

AUG 25 1951
CHARLES ELMORE CROPLEY
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1951

No. 150

THE EASTERN VENETIAN BLIND COMPANY,
Petitioner,

vs.

ACME STEEL COMPANY,
Respondent.

EASTERN'S REPLY TO RESPONDENT'S BRIEF IN OPPOSITION

JOHN VAUGHAN GRONER,
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Acme's Misuse and Its Failure to Purge

Acme argues that "Since neither that Court [of Appeals] nor the District Court found that there was any misuse at any stage, no 'purge' was necessary on June 9, 1950" (Brief in Opposition, p. 13; see also, p. 9).

This is pure sophistry. The Court of Appeals, after discussion of the issue of misuse, concluded (R. IV: p. 960):

> "The effect of all the foregoing, we think, is not to preclude plaintiff with respect to the future, but is merely to bar the right of plaintiff to recover damages for infringement of the three patents held to be valid *until plaintiff had purged the licenses of the objectionable restrictions.* Since this purge was not completely accomplished until June 9th, 1950, damages are not recoverable for any infringement prior to this date" (see also, p. 961).

And, as indicated, the District Court was reversed in its holding that there had been no misuse (R. IV: pp. 961-962).

Therefore, the basic premise upon which Acme opposes Eastern's petition, is false. However, it goes on (Br. in Op., p. 13):

> "Since there never was a finding of misuse, how could there be any 'evil consequences to be dissipated' on June 9, 1950, or at any other time? The burden surely was upon Eastern, not only to show that there was misuse, but also to show the existence of evil consequences to be dissipated."

Eastern has borne the burden of showing misuse and the Court of Appeals has held that misuse existed both with respect to Acme's original second stage licenses and those licenses as revised in July 1948.

But, having shown misuse, Eastern has sustained its burden; and the burden of showing that the "evil consequences" of its misuse have been dissipated, is on Acme (*B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495, 498).

Acme has not sustained this burden. And it is not sustained by the verbal revisions of June 9, 1950. Once before—in 1948—those licenses were verbally changed for the professed purpose of purifying—but the record here shows the changes did not purify at all (Br. in Supp., p. 3). And Acme has not shown that the 1950 revision in any way dissipated the illegal effects inherent in the earlier agreements and equally inherent in the current ones.

Acme next undertakes to justify the provision in its second stage licenses which required its licensees to practice that stage solely "with the use of slat stock produced by the practice of the first stage of said process." In this connection it says (Br. in Op., p. 16):

> "That was the only right that could be given them because, as pointed out above at page 4, the Wilson

'434 patent contains no process claims on the second stage alone but only on the second stage when practiced in conjunction with the first stage."

This is inaccurate and misleading. Claim 6 of Wilson '434 is to the *apparatus* of the second stage and Acme could have granted a license under that claim. And many of the claims of that patent are to the *process* of the first and second stages combined and Acme could have granted a license under those claims. But, neither a second stage apparatus license nor a combined first and second stage process license would have allowed Acme and Thomas to control the sale of unpatented slat stock; and the second stage licenses here in issue did precisely that, for they limited the licensees' source of supply to Acme and Thomas and, possibly, an infringer. And if the licensees bought from an infringer, Acme could dry up the supply. Contrary to Acme's argument here, if a licensee, using apparatus within the scope of Claim 6 of the '434 patent, practiced the second stage with strip steel not subjected to the first stage of Wilson '434, he would have no license at all and would be an infringer, and an infringer who, without reservation, had acknowledged the validity of that patent.

Not only are the second stage licensees unlawfully limited in their purchase of unpatented materials, but since, as Acme says, "the Wilson '434 patent contains no process claims on the second stage alone," the patent monopoly on the first stage plus the second stage confers no rights in the second stage, as such. Thus Acme has withheld the grants it legally might have made and it has granted something it didn't have. In *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, this Court made a statement which, while directed to a product patent, has equal application to a process patent and is pertinent here (pp. 667-668):

"Since none of the separate elements of the combination is claimed as the invention, none of them when

> dealt with separately is protected by the patent monopoly * * *. Whether the parts are new or old, the combination is the invention and it is distinct from any of them."

So also: *Mercoid Corp.* v. *Honeywell Co.*, 320 U. S. 680, 684.

The basic vice of Acme's attempt to license something which it doesn't have is further highlighted by this Court's decision in *U. S.* v. *Univis Lens Co.*, 316 U. S. 241. That case, like this one, dealt with a licensing system involving several classes of licenses. These licenses related to eyeglass lens and lens blanks, one licensee being licensed to manufacture the blanks and others being licensed to grind and polish them for use, or, as this Court expressed it, to "practice in part the patent" (316 U. S. 247). The situation there differed from that here in that the licensing system was used as a means for price fixing. But the Acme system was used as a means for controlling the sale of unpatented slat stock—an equally unlawful misuse of patents.

Here, the slat stock sold by Acme and Thomas, like the lens blanks of the *Univis* case (316 U. S. 249), can only be used for treatment in the second or finishing stage (R. I: p. 7) and the "only object of the sale is to enable" the second stage licensee to form it into Venetian blind slats.

And here, as in the *Univis* case (316 U. S. 251), a purchase from Acme or Thomas of slat stock gave the purchaser the right to practice the balance of the process. Thus, there is not and there never has been justification for any second stage licenses at all, and they, like the licenses of the *Univis* case (316 U. S. 254), should be entirely suppressed.

The Wilson '678 Patent

Acme opposes the grant of Eastern's petition with respect to Wilson '678 because, it says, Eastern's conten-

tion "*assumes* that the Court of Appeals did not consider all of the claims when there is nothing in the Court's opinion to justify that conclusion" (Br. in Op., pp. 21-24).

But there is. First, the Court, without reference to claims, says the patent "appears to us to be a valid patent" (R. IV: p. 954). Then it says that "This improvement consists essentially *of adding* a third stage *to the two-stage process* of First Wilson." This can only mean that the Court thought the claims comprised the steps of the first stage plus the steps of the second stage plus the steps of the third stage. And Acme attempts to foist this view on this Court, saying (Br. in Op., p. 6):

> "This highly advantageous result was accomplished by *combining* the two stages of the first patent *with* a third stage during which the metal strip is progressively and temporarily flattened *as it passes from the forming rolls of the second stage.*"

Claims 7 and 8, however, are simply to flexing "an elongated metal strip" to a flat cross-section. And finally, since the Court held that "there is certainly nothing anticipatory [of the second Wilson] in Morse" (R. IV: p. 954) and since Morse does show such flexing, and can be distinguished *only if the steps of the first and second stages are added* to those recited in claims 7 and 8, the Court could not separately have considered those claims.

Respectfully submitted,

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